

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 OMB-01 STR-04 CEA-01 IO-13 /110 W  
-----081926Z 075690 /44

R 081857Z MAR 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6271  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION USBERLIN  
USMISSION NATO BRUSSELS  
USNMR SHAPE  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
AMCONSUL HAMBURG  
AMCONSUL STUTTGART  
CINC USAFE RAMSTEIN  
CINC USAREUR HEIDELBERG  
CINC EUR VAIHINGEN

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DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: BUNDESTAG BUDGET DEBATE  
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REF: BONN 1647

1. SUMMARY: FINANCE MINISTER APEL IN HIS ANNUAL RITUAL  
PRESENTATION OF THE FEDERAL BUDGET TO THE BUNDESTAG  
DIRECTED HIS ECONOMIC POLICY STATEMENTS AS MUCH TO  
FOREIGN AS DOMESTIC CRITICS. HE PORTRAYED THE FRG

POLICIES AS BEING VERY RESPONSIBLE AND SUCCESSFUL, AND MAINTAINED THAT EFFORTS FROM ABROAD AIMED AT FORCING THE FRG TO BE MORE EXPANSIONARY WOULD BE RESISTED. THE FRG HAS MADE ITS CONTRIBUTION TO SUPPORTING THE WORLD ECONOMIC RECOVERY AND MUST NOW CONCENTRATE ON REDUCING DEFICIT SPENDING. ON THE OTHER HAND, THE OPPOSITION BUNDESTAG MEMBERS CRITICIZED THE GOVERNMENT FOR BEING TOO LOOSE IN ITS BUDGETARY EXPENDITURES AND ADVOCATED A DM 5 BILLION CUTBACK. THE OPPOSITION SUPPORTED THE GOVERNMENT'S MEDIUM-TERM INFRASTRUCTURE INVESTMENT PROGRAM, BUT STRONGLY REITERATED ITS OPPOSITION TO A 1978 VALUE-ADDED TAX INCREASE -- BOTH OF WHICH, IN ANY CASE, ARE NOT PART OF THE 1977 DRAFT BUDGET LEGISLATION. END SUMMARY.

2. ON MARCH 2, FINANCE MINISTER APEL PRESENTED THE 1977 FEDERAL DRAFT BUDGET (SEE REFTEL) TO THE BUNDESTAG. HIS ADDRESS WAS SEEMINGLY AS MUCH DIRECTED TO FOREIGN AS TO DOMESTIC CRITICS OF FRG FISCAL AND ECONOMIC POLICY. APEL REITERATED EARLIER STATEMENTS TO THE EFFECT THAT THE FRG H ALREADY STIMULATED ACTIVITY AT A TIME WHEN OTHER WESTERN COUNTRIES WERE PURSUING RESTRICTIVE POLICIES. FURTHERMORE, ACCORDING TO APEL, THE NET ADDITIONS TO INDEBTEDNESS OF THE TOTAL PUBLIC SECTOR IN THE FRG IN 1976 AMOUNTED TO THE EQUIVALENT OF 4.2 PERCENT OF GNP AS COMPARED TO 2.7 PERCENT IN THE U.S. HE CITED OECD ESTIMATES THAT THE NET BORROWING OF THE PUBLIC SECTOR OF THE FRG IN 1977 WILL COME TO 4 PERCENT OF GNP WHILE IN THE U.S. IT WILL BE ONLY 2.5 LIMITED OFFICIAL USE

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PERCENT. BUT THE LIMIT HAS BEEN REACHED, APEL IMPLIED, AND THIS MUST BE MADE CLEAR IN PUBLIC DEBATES TO FORESTALL DEMANDS ON THE FRG WHICH CANNOT BE FULFILLED WITHOUT DRIVING INTEREST RATES UP. THIS LATTER WOULD NOT ONLY REPRESENT A COST PUSH FOR THE PRIVATE SECTOR, HE WARNED, BUT RISING INTEREST RATES IN THE FRG WOULD ALSO TEND TO ATTRACT INFLOWS OF FOREIGN EXCHANGE AND INCREASE PRESSURE FOR A DM REVALUATION. THIS IS NOT IN THE INTEREST OF THE FRG GIVEN ITS GREAT DEPENDENCE ON EXPORTS. IT ALSO WOULD NOT BE IN THE INTEREST OF THE FRG'S TRADING PARTNERS, SAID APEL, EVEN THOUGH THE FRG CONTINUALLY RECEIVED ADVICE TO REVALUE. HIS RATIONALE WAS THAT DEVALUATIONS OF OTHER CURRENCIES, WHICH A REVALUATION OF THE DM WOULD SIGNIFY, TENDS TO INTENSIFY INFLATIONARY PRESSURES IN THE DEVALUING COUNTRIES AND THUS MIGHT WELL LEAD TO INTERVENTION ON FOREIGN EXCHANGE MARKETS BY FOREIGN CENTRAL BANKS WHOSE FOREIGN EXCHANGE RESERVES HAVE JUST BEEN UPPED IN DIFFICULT INTERNATIONAL SUPPORT MEASURES.

3. THE FINANCE MINISTER SAID THAT IN THE FORTHCOMING

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AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 OMB-01 STR-04 CEA-01 IO-13 /110 W  
-----081922Z 075721 /44

R 081857Z MAR 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 6272  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION USBERLIN  
USMISSION NATO BRUSSELS  
USNMR SHAPE  
AMCONSUL FRANKFURT  
AMCONSUL MUNICH  
AMCONSUL BREMEN  
AMCONSUL DUSSELDORF  
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CINC USAFE RAMSTEIN  
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INTERNATIONAL DEBATES THAT THE FRG SHALL MAKE CLEAR  
THAT ITS POLICIES HAVE, EVEN DURING THE RECESSION, LED  
TO A CONTINUED REAL GROWTH OF IMPORTS. THUS, HE  
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CONCLUDED, FRG POLICIES IN RECENT YEARS HAVE SUCCESSFULLY SUPPORTED THE WORLD-WIDE RECOVERY. REFERRING TO THE GOVERNMENT'S CONTEMPLATED MEDIUM-TERM INFRA-STRUCTURE INVESTMENT PROGRAM APEL SAID THAT THE FEDERAL GOVERNMENT AND THE STATES WERE MEETING TO DISCUSS THE DETAILS. WITH REGARD TO THE TIMING OF THIS PROGRAM, THE FINANCE MINISTER ASSERTED THAT IT WAS IMPORTANT THAT THE FINAL DECISION BE MADE BEFORE THE USUAL SUMMER LULL.

4. THE FOLLOWING DAY, MARCH 3, THERE WAS A DEBATE ON MINISTER APEL'S BUDGET PRESENTATION. OPPOSITION SPOKESMEN CRITICIZED HIGH BORROWING AND AT THE SAME TIME CONTINUED THEIR REJECTION OF THE GOVERNMENT'S PLANNED INCREASE OF THE TVA RATE FROM 11 TO 13 PERCENT BEGINNING JANUARY 1, 1978. SUCH TAX INCREASES ARE INCOMPATIBLE WITH THE UNDERLYING BUSINESS SITUATION AND HARMFUL TO PRICE STABILITY, THEY SAID. THE OPPOSITION MAINTAINED THAT FEDERAL SPENDING SHOULD BE CUT BY DM 5 BILLION, BUT FAILED TO SPECIFY WHERE SUCH CUTS SHOULD BE MADE. BUNDESTAG BUDGET COMMITTEE CHAIRMAN LEICHT OF THE CDU COMPLAINED ABOUT THE DECLINE IN PUBLIC INVESTMENT OUTLAYS WHICH IS CONTINUING DISPIE HIGH DEFICIT SPENDING. HOWEVER, HE WELCOMED THE CONTEMPLATED MEDIUM-TERM INFRASTRUCTURE INVESTMENT PROGRAM OF THE GOVERNMENT. HIS CRITICISM IN THIS REGARD WAS THAT THE GOVERNMENT WAS GOING TOO SLOWLY AND AS A RESULT WAS ADDING TO THE PREVAILING UNCERTAINTY.

5. COMMENT: ON BALANCE, THE TWO-DAY AFFAIR IN THE BUNDESTAG ON THE BUDGET WAS RATHER UNEVENTFUL. APEL'S EMPHASIS ON INTERNATIONAL ECONOMIC POLICY, THOUGH, WOULD SEEM TO HAVE SERVED HIM WELL TO OFFSET THE ANTICIPATED OPPOSITION CRITICISM THAT THE GOVERNMENT WAS TOO MUCH THE SPEND-THRIFT. ATTEMPTING TO PROJECT THE IMAGE OF STALWART PFENNIG PINCHER, APEL COULD

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POINT TO THE PRESSURES FROM ABROAD TO PURSUE AN EVEN MORE EXPANSIONARY POLICY AND THE GOVERNMENT'S RESOLUTE INTENTION TO OPPOSE THESE AND RATHER TO REDUCE THE DEFICIT EVEN FURTHER IN THE FUTURE. HE CAME ACROSS AS PURSUING A MIDDLE-OF-THE-ROAD COURSE BETWEEN INTERNATIONAL OBLIGATIONS AND DOMESTIC IMPERATIVES.

THE BILL, AFTER THIS FIRST READING, HAS NOW BEEN REFERRED, AS IS THE NORMAL PROCEDURE, TO THE BUNDESTAG BUDGET COMMITTEE. THE SECOND AND THIRD READINGS, WHICH WILL TAKE PLACE AFTER THE CONCLUSION OF COMMITTEE DELIBERATIONS, HAVE NOT YET BEEN SCHEDULED. NO MAJOR CHANGES IN EXPENDITURES ARE ANTICIPATED BEFORE IT IS BROUGHT TO A VOTE IN THE FULL BUNDESTAG SOMETIME IN THE SPRING.

IT WAS NOTEWORTHY THAT IN THE DEBATE, WHICH TOUCHED ON MANY ISSUES NOT DIRECTLY RELATED TO THE 1977 BUDGET, THE VIGOROUS CDU OPPOSITION TO A VALUE-ADDED TAX INCREASE IN 1978 AS PROPOSED BY THE GOVERNMENT WAS REEMPHASIZED. ON PREVIOUS OCCASIONS, THE OPPOSITION HAS URGED THAT ALL -- NOT ABOUT 50 PERCENT AS THE GOVERNMENT PROPOSES IN A DRAFT TAX PACKAGE "WORKING PAPER" -- OF THE INCREASED REVENUES ARE TO BE USED FOR REDUCTIONS IN THE OTHER TAXES. THE OPPOSITION SEEMS TO BE LOCKING ITSELF IN ON THIS POSITION TO AN EXTENT AS TO MAKE A COMPROMISE SOLUTION MORE DIFFICULT. WHILE IT DOES NOT IMPACT ON THE 1977 BUDGET LEGISLATION, THE GOVERNMENT'S TAX PACKAGE "WORKING PAPER" WILL EVENTUALLY BE CONVERTED INTO A BILL TO BE FORMALLY PRESENTED TO THE LEGISLATORSS. WHEN IT DOES, A MAJOR CONFRONTATION ON FISCAL POLICY FOR 1978 AND BEYOND SHOULD BE ANTICIPATED.

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## Message Attributes

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**Disposition Approved on Date:**  
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